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# THE JOURNAL OF POLITICAL ECONOMY

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## PROBABLE FINANCIAL AND INDUSTRIAL EFFECTS AFTER THE WAR<sup>1</sup>

Conjectures relating to financial and industrial effects after the war or after wars in general are always difficult. At the present time prognostications are especially uncertain, because of the doubt as to the duration of the conflict and especially because of its unprecedented magnitude.

It must be said at the outset that nations have shown unexpected recuperation after previous wars. England after the Napoleonic wars entered upon an era of unprecedented prosperity. The application of the power of steam, the beginning of the factory system, the utilization of agencies which had remained dormant, laid the basis for the England of today.

After our own Civil War, ending in 1865, the northern states began a period of expansion altogether unknown before. Railway building commenced upon a scale scarcely equaled since. Great areas of agricultural land were brought under cultivation. There was a new consciousness of strength, and an energy and push which gave promise for the future development of this country. It must be conceded, however, that this growth was contemporaneous with a great world-movement, one of the principal events of which was the opening of the Suez Canal.

<sup>1</sup> An address delivered at the Tenth Conference of the Western Economic Society, Chicago, on November 26, 1915.

In sharp contrast with the development of the northern states was the more tardy development in the South. This was due, however, not so much to the fact that the South was vanquished in the struggle, nor yet so much to the devastation of wide areas and the waste of resources, as to the fact that an economic and social reorganization was made necessary by the abolition of slavery. To that difficulty was added a condition of chaos which existed in consequence of inefficient and corrupt government and uncertainty as to the status of the citizens of the South in the political framework and government of the country. When these obstacles had been only partially removed, the South as well as the North entered upon a remarkable era of prosperity.

Another illustration is Austria-Hungary—for this recovery after war has been characteristic of victor and vanquished alike. Defeated in 1859 and 1866, suffering loss of territory in both cases, Austria-Hungary commenced a new era in 1866, showing signs of unusual life and activity.

France, after an unsuccessful war with Prussia, very promptly regained her former position. In the first few years after the war, indeed, conditions were more prosperous in France than in Germany; and it was not altogether in jest, but partly in earnest, that one of the journals in Berlin said, "Let's have another war. Let us pay an indemnity, and then we shall be prosperous."

Russia perhaps affords the most remarkable instance of all. After the unsuccessful contest with Japan in 1904 and 1905, she came more nearly into line with the more advanced nations of Europe, and showed a growth which in its rapidity had never before been equaled in that country.

There are substantial reasons why this should be the case. In time of war every energy of the people is stretched to the utmost. There is a new birth of patriotism—everyone who loves his country exerts himself to do his best. When the conflict is over, this energy is transferred to more congenial peaceful pursuits. If hope and energy have been disappointed in war, they turn to industry and to commerce. Disappointment cannot last long. There is a new spirit of self-sacrifice and desire on the part of every citizen to rehabilitate individual fortunes and the prosperity and progress of his country.

Of course, if the nation is crushed this recovery is impossible.

In this connection, I may remark that the rumors of peace which are now abroad will not, as I think, bring a cessation of the struggle. But they have a profound significance. If the war were to stop today, although the losses have been so enormous, the economic organization of Europe would still be intact; the old spirit of organization, which has been so potent in the past, would survive; the broken threads might be bound together again, and each country would proceed on its way to recover its losses and regain its old position. But if the war continues there will necessarily be confiscatory taxation, forced loans, large issues of irredeemable paper money, and economic ruin will stare the combatants in the face.

Thus there is a pausing now upon the brink. No doubt financiers are saying to prime ministers, "We cannot long continue these subscriptions to loans for the enormous expenditures of war." Carlyle, in a dramatic passage, speaks of the assassin pointing the pistol at his victim, and says, "He is not yet a murderer. There is a moment of fearful hesitancy. Then the deed is done." So, just now, the nations of Europe are pausing before the final plunge.

We can have little conception of the magnitude of this contest and the frightful losses. Some time ago I asked the bibliographical division of the Library of Congress to give me an estimate of the number of men who have enlisted and gone to the front, and also of the losses. On examining these computations, I came to the conclusion that 23,000,000 men had been called to the colors from England, France, Austria-Hungary, Germany, and Russia, divided as follows:

3,000,000	from England and her dependencies
4,000,000	" France
6,000,000	" Russia
6,500,000	" Germany
3,500,000	" Austria-Hungary

To this total of 23,000,000 must be added those recently enlisted and the number from Italy, Servia, Belgium, Bulgaria, and Turkey, making the total probably at least 30,000,000.<sup>1</sup> During our Civil

<sup>1</sup> Any computation of loss of life must be conjectural, but probably 5,000,000 killed or maimed is not an extravagant estimate.

War the total number at no time could have exceeded 3,000,000 of men. We now hear in Europe the tramp of armies numbering ten times as many men as were engaged in our Civil War.

A painstaking statistician, in a paper read before the Royal Statistical Society last May, estimated the property loss of the first year of the war at forty-six billions of dollars, or about one-eighth of the total wealth of the countries involved. Take the case of Belgium—twelve billions of total wealth and a loss in the first year of the war of two billion six hundred and thirty-two million, or more than one-fifth of the whole. With the greatest degree of frugality, it would doubtless require twenty years to repair these losses.

What are to be the effects of this loss of resources and of working force in the different countries? Capital must be enormously diminished, increased taxation will impose an almost intolerable burden, consumption must be very materially decreased, new enterprises must cease, the proportion between exports and imports which gave to these countries a very large balance of imports must be changed, and instead, if not an excess of exports, there must be a far smaller proportion of purchases and a larger proportion of sales.

Many lines of industry have not suffered so severely. The iron and steel industry, by reason of the exigencies of the war, has been maintained. In textiles, the demand for woollens has kept the mills busy. In the branches in which women workers perform a large share of the labor there has been less depletion. The steamship trade has probably suffered most, and others have suffered very materially. There will be reorganization after the war, again provided it does not continue too long; but there will be far less consumption, far less industrial enterprise.

Another factor in the situation which affects us will be sharper competition in our own market, and in the markets of countries that have been at peace. International trade, no doubt, in its volume will be diminished, but the most strenuous effort will be made by these countries, just as soon as they can rehabilitate themselves, to obtain all possible trade in every quarter of the earth. At the very close of the war international trade may continue in

something like its normal volume in filling orders which have been given before peace comes, and whatever resources are available for purchases will be expended for material to restore structures which have been destroyed, or to provide raw material, such as cotton, for manufacture. But a great loss, great depletion, and greatly diminished activity are inevitable.

There is a very important question in regard to the financial situation: What will be the effect upon investment and rates of interest? I can come to no other conclusion than that on long-time investment rates of interest must rise. A striking fact in this connection may have escaped general attention. For fifteen years preceding the outbreak of the war there was a marked and almost steady increase of rates of interest in long-time investments. To show how uncertain conjectures are, one of the three great life-insurance companies in New York in 1900 sent out inquiries to leading financiers of the country, asking their opinion about the future of rates of interest. The company needed that information in the transaction of its business. The almost unanimous opinion was that rates of interest would be lowered, but just the contrary has been true; and it has been well asked, If there was famine before the war, will there not be starvation after?

In 1899, computation of the rate of interest on large investments in England having seven years or more to run showed the rate to be 4.16 per cent. In 1906 it was 4.48. By 1913 the average rate had risen to 4.98. There had been a very material, indeed a striking, fall in the value of British consols, French rentes, German bonds, and bonds of Russia and Canada. The figures may be interesting. The average price of consols in 1899 when the interest was  $2\frac{3}{4}$  was 106 $\frac{7}{8}$ . In 1907, with interest at  $2\frac{1}{2}$ , the price was 84. In May and June of 1914, it was 74.7, at the same rate of interest. Here was a fall of 9.3 per cent in the value. French rentes were quoted in 1908 at 96.2, and in May and June, 1914, at 89.75. German 3 per cents were at 85 in 1908; in May and June, 1914, at 77.4. Russian 4 per cents increased in value from 1908 to 1912 because of improved financial conditions of the country, but from 1912 to 1914 they fell. Canadian 3 per cents fell from 107 in 1896 to 92 in 1914. Of course, there were various reasons for this

marked fall, but there was only one general explanation, and that was the greater strain on capital.

In the first place, this was an era of unparalleled progress in reconstruction due to invention. Invention gave us many new facilities and gave us new means and methods to furnish that which had been provided before. As a result, many plants were consigned to the scrap heap. Many new articles came into use—the automobile for instance.

The second cause was an unusual amount of preparation for the demands of the future. In every country the demand for investment, whether short-time loans or long-time loans, has two widely different objects in view: first, providing for the present wants of the people, and, secondly, providing for additional facilities and the larger demands of the future. In providing for those larger demands, extensive public works and great enterprises are undertaken. The results are often deferred for a long period, for the works are a long time in construction. This period between 1899 and 1914 affords as its best example the construction of the Panama Canal, a work which cost four hundred millions, which required nearly ten years in building, and which probably will not make known its full effects for a much longer period.

A third large factor, closely connected with the advancement of the rates of interest everywhere, is the diversion of capital from uses in which it readily reproduces itself to other ends, which, although very beneficial, do not bring an immediate economic return, such as higher standards in architecture, more commodious dwellings, better sanitation in cities, parks and playgrounds, provision for amusement and recreation. Along with this, there have been expenditures for extravagance and waste. These non-productive expenditures are not to be decried, although they have consumed a great deal of capital and have not brought the return which would follow expenditures for planting crops or for ample, but not luxurious, houses. It is a characteristic of the age.

Adam Smith in *The Wealth of Nations* (1776) refers to the fact that the time had come when a common workman, as he calls him, might go to a play or puppet-show and thereby contribute to the support of one set of unproductive laborers. With his Scotch

thrift he seemed to take that fact very much to heart. But there was no occasion to fret about it. It simply showed that the time had come when, with the ampler results of industry and the more ready yield of the fruits of the earth, men could turn aside from their daily toil and give some attention to recreation.

Another factor which has helped to cause this increase in the rates of interest is the enormous flotation of securities due to the consolidation and trust movement and the formation of giant corporations which commenced on a very large scale in the years 1899 and 1900.

Of course, in forecasting the future, account should be taken of the possibility of destruction so complete that stagnant business and the abandonment of new enterprises will so diminish the demand for capital that rates of interest will not increase.

There is an interesting question in this connection about which I do not feel we have the data to give any intelligent opinion. Will immigration increase after the war? Will it attain the proportions of the year 1914? In the first place, the working force, not only of laborers, but of employees, skilled and unskilled workmen, will be decimated in Europe. If the old degree of enterprise and activity should continue, wages would certainly be higher; but there will be less capital to work upon, and hence I do not think that one is safe in predicting that wages will actually rise in Europe.

Furthermore, after every war, the men who return from the field are in a measure dislocated from their prior vocations. There is a certain restlessness, as was manifested after our Civil War, when tens of thousands of soldiers left their former homes and went out to settle the great West.

There will also be a desire to leave the charnel house of Europe and come to America with its bright prospects of equality and opportunity. Men will be like flocks in a dried-up pasture, looking over to enticing fields of clover beyond. The majority of those who have been connected with the immigration service believe we shall have a large influx of foreigners. But whether there will be an increase or decrease will be determined largely by three factors. There will be the question of the amount of employment at home; and of the degree to which capital can be utilized in the



countries now engaged in war. Again, will these countries place an embargo or prohibition on emigration? It is more than likely that they will, not merely for the maintenance of the industrial force, but to sustain their military strength. In the month of May, soon after the declaration of war by Italy against Austria-Hungary, in the city of São Paulo, Brazil, the street in which the office of the Italian consul was located was so thronged with Italians seeking to enlist that it was impossible for a person to force his way through the congestion. If a country can call its citizens from foreign lands to war, how much more easily can it prevent them from leaving their own country in time of peace.

The third factor is the degree of prosperity in our own country. Immigration has almost always kept pace with the industrial activity in our own land, following somewhat after it. The year 1907 was one of the maximum years of immigration to the United States, perhaps *the* maximum year. If prosperity invites, that will be another influence to call immigrants from the Old World.

There are a number of other factors, some of them psychological, which will affect the degree of business activity after the contest is finished. Will the countries which are insistently demanding capital from other countries cease their demands and mark time? Will this great movement for human betterment, for the improvement of our cities, cease? I cannot think it will. Will the enormous expenditures for military preparedness continue? One of two things will happen after the war: an era of militarism, or an era of peace in which the different nations will seek to settle their difficulties in courts of arbitration, believing it is better to make concessions and chance the danger of an adverse decision than to run the risk of a frightful war.

After other wars, there has been a cessation of hostilities for some time, and I think that the present belligerent countries will be so exhausted that they will continue at peace for at least many years. But I may remark, incidentally, the possibilities of war are so serious that we cannot depend upon probabilities in the defense of our own borders.

What will be the course of business in the United States? We experienced a season of depression which probably reached its

height during the month of June, 1914. There were at that time slight indications of improvement. After the commencement of the war, the depression was even more severe. That was followed gradually, in small proportion at first, but in mammoth proportion later, by such a demand for food supplies, ammunition, and ordnance that we are now enjoying an abounding prosperity, though abnormal, unequal, and attended by a great deal of speculation and uncertainty.

When the war comes to an end, what will be the result? There will be an almost immediate cessation of these exceptional demands upon us. We shall return to the usual level. It must be said that there has been a period of economy—at least extending until the orders from abroad were so large as to stimulate prosperity—which has caused a great deal of saving. The uncertainties of the situation prevented expansion in the form of new enterprises. Equipment was neglected and stocks of goods ran low. There have been abounding crops and other factors which make for a change from a cycle of depression to a year of unusual business activity, but it is manifest that there will follow an uncertainty, probably a very considerable abatement, in demands upon our shops and upon our farms as well. I can see no other rational or logical result. Our best customers will buy less from us. They will not be able to maintain the volume of purchases. And, against that, their competition for our markets will be sharp, even sharper than ever before.

There are certain steps that we ought to take at such a time. We ought to recognize that conditions abroad will diminish purchasing power. What else can be expected than that the demands upon us will be less? When a merchant rises in the morning and finds that the houses of his best customers have been burned to the ground during the night, he does not expect to sell so much as before; and on the larger international scale the same will be true at the close of the war.

It is true there is something in the fact that Europe has relied upon us very largely for necessary articles, for food, and for a certain class of crude materials indispensable in manufacturing. The abatement of its purchases might therefore chiefly manifest itself in a slackened buying of luxuries which it has obtained from

other countries. Yet the aggregate of its purchases must show a very considerable diminution from those of previous years.

In view of these conditions, what policies ought we to adopt? In the first place, we should direct our energy and ability toward the less advanced portions of the earth and the developing of our trade there. In the past we have been enjoying that trade which has come to us easily, without very great effort. We have exported our products to the more developed nations or to those in close proximity to us. Our export statistics afford some very interesting and singular comparisons. In 1914 we sold as much to Holland with six millions of inhabitants as to all of Asia with six hundred millions. It is true that a great deal of that which was shipped to Holland was to be reshipped again, since that is a commercial country. Prior to the war we sold more to Belgium than to all of Africa. Canada is the marvel of our trade, as a result of proximity and similarity of customs and language. To Canada with its eight millions we send more than to all of Asia, all of Africa, all of South America, and all of Oceanica combined.

These statistics show that we are not laboring very sedulously for the trade of the less developed countries. South America and Central America present a promising field. To South America we sent in 1914 only 5.27 per cent of our exports. In order to obtain that trade it will be necessary for us to lend capital there, to enter the field, not merely to dispose of a surplus, or in consequence of some excursion of merchants journeying there in a steamship, but by sending agents there to live.

In this connection, what will be the demands upon the United States for capital in the future? Europe will not be able to lend for investment in this country. All her capital will be needed at home. Moreover, those outlying portions of the earth, like South and Central America and Africa, will be coming to our shores to obtain loans.

I noticed, in conversation with prominent men in South America, that after talking about how friendly we ought to be, of the closer diplomatic relations we ought to have, and of the bonds that ought to unite us, they would usually close by saying, "We need your capital and we trust you will be able to lend to us." It is very

probable that the center of the world's finance, that at one time was in Venice, and was then transferred to Amsterdam, and later to London, where it remained for centuries, will now shift from the banks of the Thames to the banks of the Hudson.

In saying this, I am not overlooking the fact that where there is to be a financial center there must be a trade center as well. But when all the debits and credits are counted, although we may not become a creditor nation, while the millions we owe abroad may not be wiped out at the close of the struggle, there will be more available capital in the United States than anywhere else in the world.

We ought to devote more attention to business problems and ethics. We have paid too little attention to the punishment of fraud, and too much to imposing penalties for academic violations of some theory in regard to business. I will go as far as anybody in insisting upon punishment for dishonest practices; but a change has come over the country and over the world industrially, which has profoundly altered conditions. When I was a boy, I used to visit the little shops and see the employer going around among the employees, talking to them at the bench, inquiring whether their children were at school or not, visiting them when they were sick, and, when one of them died, going with the funeral cortège to the hillside cemetery. That seemed like a golden age of industry, but all that has passed. We have now the mammoth plant covering acres, where at the blowing of the whistle an army of men comes to work, and a whirlwind sound of machinery and steam says to the laborer: "I will labor for you with muscles that never grow weary and a breast that never faints." We shall never go back to the old conditions any more than to the stagecoaches. I am aware, however, that in these great enterprises there is a danger that may threaten the state. Reasonable regulation should be adopted, but let the regulation be such that it will not stay the wheels of progress.

We talk much of peace abroad. Should we not have more peace at home between employers and employees? That can be secured only by an intelligent consideration of the rights of all, and a disposition on the part of each to look at every proposition before him fairly. I am strongly inclined to believe that if our country

were isolated and had no foreign trade, employer and employee would tend to come together and argue, "What is the use of our constantly quarreling? Let's increase the wages and increase the profits and make the dear public pay the cost." But when cost reaches a certain figure, industry must stop, and we are thereby debarred from entering foreign markets. Hence there is a constant struggle over wages and profits which, if we intelligently considered the situation and had a proper regard for what the different parts of our population owe each other, would be settled amicably.

Some say, "That means a millennium," but this is a serious time. We do not realize the importance of events that are now pending. We have only the faintest comprehension of what this war means. We are like a tourist at the foot of a great mountain. He sees its rugged slopes and paths leading to unknown caverns, but the lofty summit is hidden from his eyes, and the splendor of this great phenomenon of nature is not comprehended by him.

In the midst of this fearful cataclysm in Europe, is it not a time for us to reflect? Is it not time for those who have adopted as their own the profession of reforming to stop making their exclusive occupation the reform of others? After some great trial or tribulation an individual often becomes a new man, starting out in better ways than before, with a new devotion to duty and a higher degree of unselfishness. Is it not for us, in this calamity, imbued with a spirit of sympathy for the woe and suffering of those engaged in this titanic struggle, to look not only for a greater America but for a better America?

In the future we must be leaders in the world's civilization. One of the worst handicaps of the contending nations in Europe, after you have made full allowance for the slaughter of their young men, for the devastation of their fields, for the loss of their wealth, is the legacy of hate and bitterness which will remain. In this connection, I have been surprised and amused in reading the amount of literature by European economists regarding the advantages which their respective countries will secure after the war; contemporaneous with accounts of victories and defeats they are writing articles dilating upon the great advantages in trade that will come to them. Some propose a boycott on the goods of the

enemy; others suggest a customs union against the opposing combatants. Almost all of them favor discrimination of some kind. Yves Guyot has written a number of articles in which he points out with much detail the great advantages accruing to the Allies by the capture of markets belonging to Germany. Now it is safe to predict that nothing of that kind will happen. If discrimination and boycotts are attempted, it will mean the war is not over. And moreover trade will follow its natural channels. There may be antagonisms, but peace will not be complete until the time shall come when trade and commerce have as free a course as in the days before the war.

Again I wish to urge a sense of our larger responsibilities at this time. Commercial advantages will accrue to us. According to the latest figures at the end of October, the billion and more of our exports of the twelve months to June 30 last was surpassed by an excess of one billion six hundred millions for the twelve months ending October 31. Even if these enormous purchases do not continue, we shall in any event have reaped great commercial advantages from this war. In the time of our opportunity and our responsibility we should take the stand that, in friendship to all, with a desire to play our part in the great commercial republic and in the family of nations, we shall be worthy leaders in the future. Let us take up these new duties, which are sure to rest upon us, in a manner worthy of citizens of this great country.

THEODORE E. BURTON

CLEVELAND, OHIO